MEPP

management employees pension plan

ANNUAL REPORT

07

TABLE OF CONTENTS

MEPP PROFILE

The Management Employees Pension Plan (MEPP) was originally established in 1972 as the Public Service Management Pension Plan for management employees of the Government of Alberta and approved agencies, boards and commissions.

In 1993, new legislation was passed that divided the Plan into two separate plans: the Public Service Management (Closed Membership) Pension Plan (Closed Plan) and the MEPP.

Members who left the Plan or retired before August 1, 1992 and those who had 35 years of pensionable service by August 1, 1992 became members of the Closed Plan. Funding for the Closed Plan is the responsibility of the Government of Alberta. Active members as of August 1, 1992 became members of the MEPP.

MEPP is a contributory defined benefit plan, which means members contribute to the Plan and will receive a formula-based pension determined by their average pensionable salary and years of pensionable service. As of December 31, 2007 the MEPP served 19 employers, 4,868 active members, 733 inactive members and 2,684 pensioners. A summary description of Plan provisions is in Note 1 of the financial statements. An overview of the choices and benefits under the Plan is provided in the MEPP Members' Handbook (see the MEPP website at www.mepp.ca).

The Board

Governance Statement

The Minister of Finance is the statutory administrator of the Management Employees Pension Plan (Plan) and holds all assets of the Plan in trust to provide benefits pursuant to the Plan and to meet Plan costs.

The *Public Sector Pension Plans Act* sets out the main objectives of the Management Employees Pension Board (Board) with respect to funding, administration, investments and amending the Plan. The Board monitors the management of the Plan and acts in an advisory capacity to the Minister of Finance.

The Board:

- may advise the Minister on any pension matter that is of interest to persons receiving or entitled in the future to receive benefits under the Plan;
- must be consulted before Plan rule changes can be put in place;
- arranges for actuarial valuations, as required, and regularly reviews long-term actuarial assumptions;
- recommends general policy guidelines for the investment and management of the Plan's assets (*Statement of Investment Policies and Procedures* [*SIPP*]);
- reviews investment performance;
- recommends general policy guidelines on the administration of the Plan;
- reviews administrative decisions pursuant to a delegation from the Minister; and
- may advise the Minister on the Public Service Management (Closed Membership) Pension Plan (Closed Plan).

2007 Board Members

Standing:
David Lawson
Fred Barth
Blake Bartlett
Jan Loree Symon

Seated:
Nancy Bochard (Vice-Chair)
Scott Kashuba (Chair)
Rod McDermand

Board Members

- The Board has seven members: three employee nominees, three persons nominated by Government and one non-voting member nominated by the Public Service Commissioner's Office.
- The offices of Board Chair and Vice Chair rotate every two years between Government and employee nominees.

Board Vision

Promised benefits will be paid.

Board Mission

To provide prudent governance of the Management Employees Pension Plan Fund and the Public Service Management (Closed Membership) Pension Plan.

Board Values and Principles

- Plan assets will be managed effectively and efficiently in compliance with governing legislation.
- All decisions made by the Board will be financially prudent, ensuring the overall financial health of the Plan is maintained and costs charged to the Plan are reasonable and equitable.
- Governance of the MEPP and Board will be consistent with governing legislation for the benefit of the members.
- The Board members embrace the prudent person concept in exercising good judgment on behalf of beneficiaries.

MESSAGE FROM THE BOARD

The Board is committed to being active stewards of your pension plan. Our primary focus is on overseeing the management of the MEPP to help ensure there are sufficient assets to meet the pension benefits promised.

Plan Funding

During 2007, the MEPP fund earned 2.7 per cent net of investment expenses. Although this return is significantly lower than the 14.0 per cent return achieved in 2006, the Plan's return on a four year basis is 9.9 per cent. This is higher than the current long-term investment return assumption of 6.75 per cent.

To support the Board in its monitoring of the Plan's financial position, and at the request of the Minister of Finance, an actuarial valuation as at December 31, 2006 was performed. As part of this process, the Board undertook additional analysis to ensure the valuation assumptions reflected an appropriate view of the Plan's expected experience and the future investment environment.

The results of this 2006 actuarial valuation indicated that the unfunded liability of the MEPP had decreased to approximately $241 million, roughly 10 per cent of the Plan's total liabilities. This reflected the special Government of Alberta contribution of $40 million in March 2007, which was applied to the employer share of the unfunded liability. Had this contribution not been made, the Plan's unfunded liability would have increased.

This valuation also indicated a slight decrease in the minimum required contribution rates. Rather than decrease rates at this time, the Minister chose to maintain the existing 28.5 per cent total contribution rate based on recommendations made by the MEPP Actuary and the Board. This has provided for stability to contribution rates, which were recently increased in 2005.

Although the December 31, 2006 actuarial valuation was not required to be used for funding purposes, the report has been filed with the Canada Revenue Agency. As a result, the next actuarial valuation of the MEPP is required no later than as at December 31, 2009.

In 2008, the Board will continue to monitor the Plan's financial position and provide advice to the Minister as necessary.

Plan Investments

With the assistance of its Investment Committee, the Board monitors the Plan's investment performance on a quarterly basis and annually reviews the MEPP SIPP, including the fund's asset mix.

In 2007, the Board completed work on its *Statement of Investment Beliefs*. These investment beliefs, which now form a part of the SIPP, will assist the Board with recommending the guidelines for the investment and management of the MEPP fund.

Throughout 2007, the Board worked with Alberta Investment Management (AIM) (known, effective January 1, 2008, as Alberta Investment Management Corporation (AIMCo)) and our external consultant, API Asset Performance Inc., to improve investment risk management and reporting. We also focused on education about investment products, developed a process for assessing investment opportunities, and applied this process relative to private income (infrastructure) and private equity opportunities.

In 2008, we will continue to monitor the investment performance of the MEPP fund. The Board will also commence an asset-liability modeling study in order to review, and amend if necessary, the Plan's asset mix, and performance and risk targets.

Governance

At the start of each meeting, Board and Committee members are asked to declare any conflicts of interest. Throughout the year, there were no conflicts declared. In addition, members individually confirmed at the end of the year that they had adhered to the Board's Code of Conduct and Ethics policy.

In 2007, the Board tracked and reviewed Board member attendance, and performed a self-assessment of its success in carrying out its role. These results will assist us in our on-going refinement of Board processes and procedures. The Board also reviewed several of its policies in accordance with our schedule of reviewing each policy at least once every three years. In addition, we provided feedback to Alberta Finance when requested, and worked with Alberta Finance to ensure timely succession of Board members.

The Board also conducted a Request for Proposal for actuarial and pension consulting services. After thorough consideration of very qualified proponents, the Board approved the selection of Aon Consulting as actuary for the MEPP. In 2008, the Board will go through a similar process with regard to investment consulting services.

In 2008, Board members will continue to enhance their existing knowledge of pension, investment and trustee related matters in order to serve the Plan and its members to the best of their abilities. In addition, the Board will perform a self-assessment to facilitate the development of an ongoing, systematic examination of the Board's effectiveness, and identify opportunities for improving its operations and procedures.

The Board will also continue to work in partnership with representatives of Alberta Finance, AIMCo and Alberta Pensions Administration Corporation (APA) to address the Board's recommendations on the governance of the Plan and Plan fund, and establish a clearer direction for all parties involved. This will include the review and documentation of service standards and reporting requirements with these groups.

For further information on the MEPP actuarial valuation or SIPP, or the Board's 2008 – 2010 Business Plan, please visit the MEPP website at www.mepp.ca.

2007 Board

On behalf of the Board, I would like to acknowledge and extend my thanks to departing Board member Fred Barth, who served on the Board as a Government nominee for more than nine years. I am pleased to welcome Don Smallwood to the Board as a Government nominee commencing in 2008.

As the success of the Board depends on the assistance of its Investment Committee, I would like to thank David Lawson, Chair of the Board's Investment Committee. The Board would also like to acknowledge and extend its gratitude to the two external members of our Investment Committee – Jim Hinks and Joe Doolan.

The Board would also like to thank Alberta Finance, AIMCo and APA for their respective contributions in assisting the Board throughout 2007.

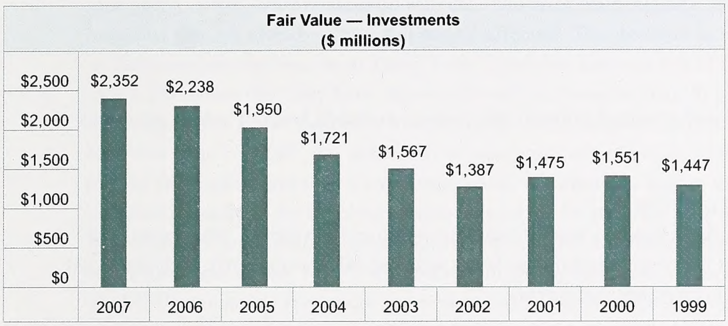
Finally, I would like to take this opportunity to extend our thanks and appreciation to Christa Taylor, departing Board Secretary, for her commitment and support over the past many years. The Board would also like to thank the Board Recording Secretary, Jennifer McNeil, for her excellent assistance and dedication throughout the past year.

My term as Chair has come to an end, and I would like to thank the Board for its support over the past year. I would also like to thank Nancy Bochard for her past two years as Vice-Chair, and welcome Rod McDermand as incoming Board Chair, and Blake Bartlett as incoming Vice Chair, effective January 1, 2008.

Scott Kashuba
Chair, Management Employees Pension Board

HIGHLIGHTS

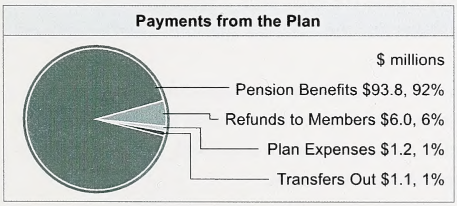
For 2007, the Plan experienced a one-year investment gain of 2.7 per cent. In 2006, investments gained 14.0 per cent. The fair value of investments at the end of 2007 was $2.35 billion, up from $2.24 billion at the end of 2006.



Contribution rates are set at 10.5 per cent of pensionable salary for members and 18.0 per cent of pensionable salary for employers. Contributions made to the MEPP in 2007 totalled $156.6 million, up from $105.0 million in 2006.

Contributions	$ millions	%
Employer Contributions	71.9	46
Member Contributions	42.6	27
Additional Government Contribution	40.0	26
Transfers from Other Plans	2.1	1

Payments from the Plan totalled $102.1 million, up from $91.3 million in 2006.



Monthly Payment Distribution December 31, 2007	
Dollar Value per Month	**Pensions Paid**
1 to 999	330
1,000 to 1,999	470
2,000 to 2,999	580
3,000 to 3,999	623
4,000 and over	681
Total	**2,684**

The Cost-of-Living Adjustment (COLA) granted to pensioners who retired prior to January 1, 2007 is 2.94 per cent, effective January 1, 2008. This is 60 per cent of the 4.9 per cent increase in the Alberta Consumer Price Index over the 12-month period ending October 31, 2007, in comparison with the 12-month period ending October 31, 2006.

DISCUSSION AND ANALYSIS

This Discussion and Analysis (D&A), together with the MEPP financial statements, provides an overview of initiatives and achievements during the past year. This D&A does not refer to the Closed Plan, as the funding for that plan is the responsibility of the Government of Alberta.

Review of 2007

The financial health of the MEPP is measured and reported through two distinct methods, both of which adhere to recognized and generally accepted principles:

Financial Statements—for annual reporting purposes

The MEPP financial statements use fair value (also known as market value) to measure the value of plan assets. The method also uses the actuarial value of accrued benefits (based on the latest actuarial valuation report), with projected adjustments, to bring the figure forward to the current reporting year.

The financial statements for 2007 used the actuarial valuation report as at December 31, 2006 to determine the actuarial value of accrued benefits. As at December 31, 2007, the Plan's financial statements show that net assets available for benefits were $2.361 billion (2006: $2.247 billion) and the actuarial value of accrued benefits was approximately $2.446 billion (2006: $2.254 billion). This resulted in a shortfall of approximately $84 million (2006: $7 million) and an overall funded ratio of 97 per cent (2006: 99 per cent).

Financial statements for the MEPP are produced every year and reported in the MEPP Annual Report.

Actuarial Valuations—for funding purposes

The required minimum overall contribution rate for the MEPP is based on the results of an actuarial valuation report conducted by the MEPP actuary. This method uses an adjusted value of the MEPP assets, rather than the fair value used in the production of the financial statements. It amortizes over a five-year period the difference between the actual investment income (less investment expenses) and the actuarially required net investment income for each year. This addresses short-term market volatility that may arise in order to promote contribution rate stability for the MEPP's members and employers.

The liabilities are measured through the review and analysis of member data and best estimate assumptions of future experience. The projected accrued benefit method, prorated on service, is used to determine the actuarial liabilities for both the actuarial valuation report and the financial statements. As the same actuarial assumptions are also used, the liabilities for funding purposes and for the financial statements are the same when measured at the same date.

The latest two actuarial valuations were performed as at December 31, 2004 and December 31, 2006. The 2006 valuation disclosed that the actuarial value of assets was $2.067 billion (2004: $1.731 billion*) and the actuarial value of accrued benefits was $2.308 billion (2004: $1.987 billion*). This resulted in an unfunded liability of $241 million (2004: $256 million) and an overall funded position of 90 per cent (2004: 87 per cent).

Under the *Public Sector Pension Plans Act*, an actuarial valuation is required on no less than a triennial basis. As the latest valuation for the MEPP was performed as at December 31, 2006, the next valuation is required no later than as at December 31, 2009. Because valuation reports are finalized mid-way through the following year, the reporting of these results will be one year behind financial statement reporting. The valuation reports used for determining the contribution rates for the MEPP are reported on the MEPP website at www.mepp.ca.

* restated to conform with 2006 presentation.

Regulation Changes

In 2007, the Lieutenant Governor in Council approved several changes to the *Management Employees Pension Plan Regulation (A.R. 367/93).*

- An amendment in February removed the disability benefits under the Plan for new participants effective July 1, 2007. The change does not affect active or deferred members of the MEPP as long as they were active or deferred as at July 1, 2007. Only those who join the Plan after June 30, 2007 are ineligible for disability pensions. Disability pensions that are already in pay will not be affected. The decision to discontinue disability pensions was made to eliminate any duplication in Long Term Disability Insurance (LTDI) coverage, as most employers have their own LTDI plans that they have registered with the pension plan. Registering an LTDI plan with the pension plan currently allows active members to continue to build pension entitlements while they receive LTDI.
- Effective June 13, 2007, the definition of salary was revised to include acting pay. Acting pay is defined as extra pay for the performance on a temporary basis of duties at a higher level than the regular duties, and can only be included in salary if the employer treats it as salary for pension purposes under an established salary policy.
- In November, amendments were approved to expand reciprocal transfer agreements. Effective January 1, 2008, active members of the MEPP with service in an eligible pension plan may be able to transfer that service into the MEPP through a reciprocal agreement. Similarly, employees leaving the MEPP may also transfer their service under these new arrangements. The participating plans include other Alberta public sector pension plans (Public Service Pension Plan, Local Authorities Pension Plan and Teachers' Retirement Fund) and a number of provincial public sector pension plans across Canada.

To obtain more information about the Plan, any upcoming changes in 2008, or for a glossary of terms, please go to the MEPP website at www.mepp.ca.

INVESTMENT OVERVIEW

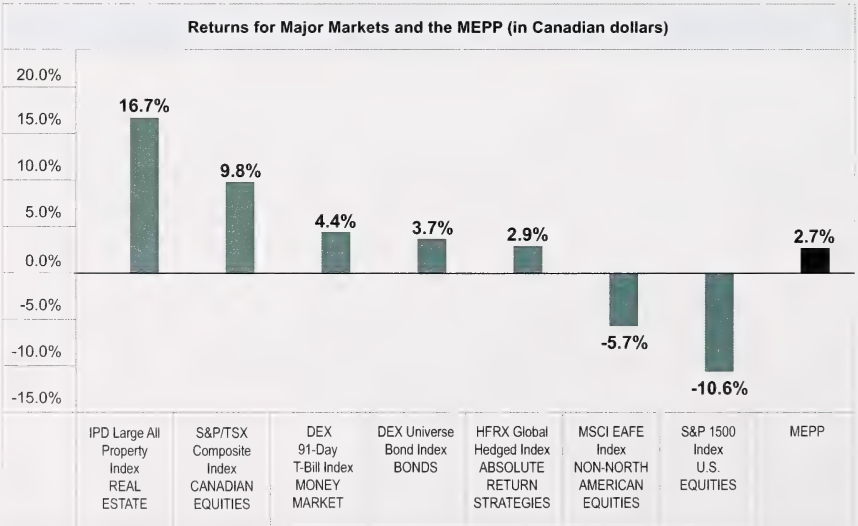
In 2007, the Plan earned a return on its investments of 2.7 per cent or $60 million, after expenses, compared to 14.0 per cent, or $275 million, in 2006. The fair value of the Plan's investments increased to $2.352 billion, up $114 million from $2.238 billion the previous year. The Plan is a diversified portfolio that is invested across a variety of markets and asset classes.

Overall, markets were down compared to the previous year. A significant decline in the U.S. housing market in 2007 and credit concerns with sub-prime mortgages and asset backed commercial paper (ABCP) led to a credit and liquidity crisis which subsequently caused a softening in world equity markets. This affected the value of financial institutions holding these types of investments and the liquidity of other structured investment vehicles.

The Plan has a small exposure to structured investment vehicles, nominal exposure to non-bank sponsored ABCP and no direct exposure to U.S. sub-prime mortgages. However, the Plan has indirect exposure to the sub-prime situation to the extent the Plan holds other investments such as stocks held in publicly traded financial institutions through its U.S., Canadian and non-North American equity portfolios, which in turn may hold sub-prime mortgages. The Plan has a well diversified investment portfolio and long-term investment focus which is designed to minimize its exposure to any one type of investment. The stronger Canadian dollar in relation to other world currencies also had a negative impact on the value of non-Canadian investments.

Canadian real estate and Canadian equities had strong gains in 2007. However, these gains were offset by negative returns from investments in U.S. equities and non-North American equities which were impacted by the appreciating Canadian dollar and a weakening U.S. economy.

The following chart summarizes the market returns from various indices around the world and the overall return on the MEPP's investments for 2007.



The Canadian real estate market, represented by the IPD Large Institutional All Property Index, increased by 16.7 per cent down from 18.6 per cent last year.

In the Canadian stock market, the Standard & Poor's Toronto Stock Exchange (S&P/TSX) Composite Index increased by 9.8 per cent in 2007 down from 17.3 per cent in 2006.

The value of the Plan's non-Canadian investment portfolio is exposed to foreign currency risk. For example, for every one cent change in the U.S. dollar against the Canadian dollar the fair value of the Plan's U.S. equity portfolio, totalling $319 million, changes by approximately $3.2 million. In September 2007, the Canadian dollar reached parity with the U.S. dollar. By year's end, one U.S. dollar purchased 99 cents Canadian, compared to $1.17 Canadian at December 31, 2006. As a result of the stronger Canadian dollar, U.S. dollar investments declined in value over the year when translated into Canadian dollars. Investment returns from U.S. equities were negative over the year when translated into Canadian dollars.

The S&P 1500 Index, which tracks the performance of the largest 1,500 American companies, increased by 5.5 per cent in U.S. dollars in 2007 compared to 15.3 per cent in 2006. When translated into Canadian dollars, the Index returned a negative 10.6 per cent in 2007 compared to a positive return of 15.3 per cent in 2006.

Outside of North America, the Morgan Stanley Capital International Index for Europe, Australasia, and the Far East, (MSCI EAFE) Index, measures the performance of approximately 1,200 companies on 21 developed market country indices around the world. In Canadian dollars, the Index returned a negative 5.7 per cent in 2007 down from positive return of 26.3 per cent in 2006.

The bond market represented by the DEX Universe Bond Index posted a return of 3.7 per cent in 2007 down from 4.1 per cent in 2006 and 6.5 per cent in 2005.

Investment Management Services

Alberta Investment Management (AIM) is the investment operation of Alberta Finance which manages and invests the assets of the Plan on behalf of the Minister of Finance and the Board. AIM invests the MEPP's assets for the benefit of its members, subject to legislation and the investment policies recommended by the Board. On January 1, 2008, the investment operation of the Department of Finance of the Government of Alberta was transferred to the newly created Alberta Investment Management Corporation (AIMCo).

The Board reviews AIM's services and associated charges. An independent investment consultant, API Asset Performance Inc., assists the Board in its review of the investment performance of the Plan. The Board has designed the Plan's investment policies with a focus on assessing the risk tolerance of the Plan and ways to manage the inherent volatility of the long-term asset mix.

The MEPP's asset allocation policy is structured to capture the historically higher rates of return from equities. At December 31, 2007, the long-term target asset mix was weighted more toward equities at 52.0 per cent, followed by fixed income securities at 33.0 per cent, real estate at 7.0 per cent, private equities at 3.0 per cent, private income at 4.0 per cent and 1.0 per cent to absolute return strategies (hedge funds). The illiquid asset classes, such as real estate, private equities, private income and absolute return strategies, are not always readily available for purchase and will take longer to attain their respective target asset mix. The Board has designed an interim policy asset mix to facilitate the transition. As at December 31, 2007, the interim policy asset mix was 54.0 per cent equities, 36.0 per cent fixed income, 7.0 per cent real estate, 1.5 per cent private equities, 1.0 per cent private income and 0.5 per cent absolute return strategies. The Board intends that the interim policy move toward the long-term target asset mix as illiquid assets become available.

AIM manages the majority of the MEPP's investments internally. However, in order to achieve greater diversification, access external expertise and specialized knowledge, as well as reduce operational complexity, some investments are managed by third party investment managers selected and monitored by AIM. As at December 31, 2007, the MEPP had $714 million invested in AIM products that are managed wholly or partially by external managers compared to $608 million in 2006.

Statement of Investment Policies and Procedures (SIPP)

The *SIPP* sets out the governing investment principles and procedures, specifically the asset mix of the Plan, taking into consideration the Plan's provisions, characteristics, and financial obligations. It also describes the management structure and monitoring procedures. The Board reviews the *SIPP* annually and recommends changes if necessary. The *SIPP* can be viewed on the MEPP website at www.mepp.ca.

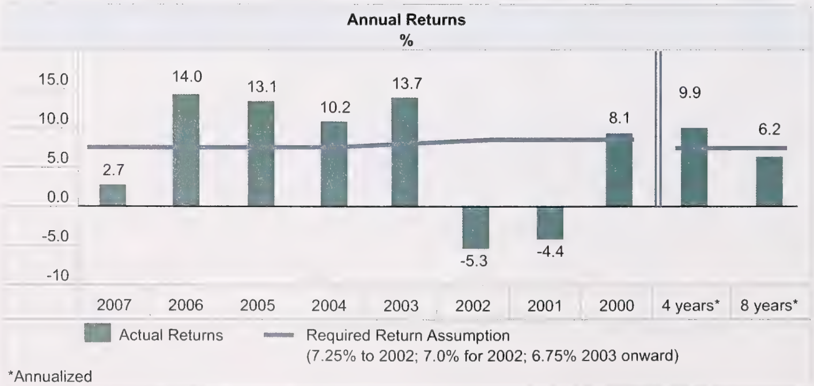
Asset Mix

The table below shows the MEPP's target long-term and interim policy asset mix in comparison to the Plan's actual asset mix at December 31, 2007 and 2006.

Asset Mix %				
	Target Policy	**Interim Policy**	**Actual 2007**	**Actual 2006**
Fixed Income				
Cash and short-term	0.5	0.5	0.8	1.1
Bonds and mortgages	29.0	32.0	32.6	31.7
Real return bonds	3.5	3.5	3.5	2.9
	33.0	36.0	36.9	35.7
Equities				
Canadian	22.0	24.0	23.4	22.1
United States	14.0	14.0	13.6	15.9
Non-North American	16.0	16.0	15.4	16.7
	52.0	54.0	52.4	54.7
Real Estate	7.0	7.0	7.4	7.1
Alternative Investments				
Private equities	3.0	1.5	1.6	1.3
Private income	4.0	1.0	1.0	0.8
Absolute return strategies	1.0	0.5	0.7	0.4
Total	**100.0**	**100.0**	**100.0**	**100.0**

Long-term Investment Objective

The chart below compares the MEPP's overall actual returns for calendar years 2000 to 2007 and the four- and eight-year annualized time periods against the required long-term investment return assumption of 6.75 per cent. In five of the last eight years, the Plan's actual returns exceeded the required long-term investment return assumption. Over eight years, the annualized actual return of 6.2 per cent was 0.55 per cent less than the required long-term return assumption of 6.75 per cent.



Investment Results in Relation to Benchmarks

In order to measure the investment performance from AIM's active management, such as security selection, the investment return for each asset class and the overall performance of the Plan's assets are measured against clearly defined benchmarks that have been established in the *SIPP*. The MEPP's investment policy benchmark (referred to as the policy benchmark) is based on the long-term asset mix weightings of the portfolio invested in the following capital markets:

	Annual Returns ($ Canadian)*				Annualized Returns**	
	2007 %	2006 %	2005 %	2004 %	4 Years %	8 Years %
Overall Actual Returns	**2.7**	**14.0**	**13.1**	**10.2**	**9.9**	**6.2**
Policy Benchmark Return	2.6	13.2	11.8	10.0	9.3	5.7
Consumer Price Index (1)	2.4	1.6	2.2	2.1	2.1	2.3
Short-term fixed income	**5.2**	**4.0**	**2.9**	**2.8**	**3.7**	**3.9**
DEX 91-Day T-Bill Index	4.4	4.0	2.6	2.3	3.3	3.6
Bonds and Mortgages	**1.9**	**4.8**	**7.2**	**7.9**	**5.4**	**7.3**
DEX Universe Bond Index	3.7	4.1	6.5	7.1	5.3	6.9
Real Rate of Return Bonds	**1.7**	**-2.8**	**15.2**	**17.6**	**7.6**	**9.3**
DEX Real Return Bond Index	1.6	-2.9	15.2	17.5	7.5	9.4
Total Long-term Fixed income	**1.9**	**4.1**	**7.9**	**9.2**	**5.7**	**7.5**
Fixed income index (2)	3.5	3.4	7.2	8.5	5.6	7.2
Canadian Equities	**9.2**	**18.2**	**24.6**	**15.3**	**16.7**	**10.1**
S&P/TSX Capped Composite (3)	9.8	17.3	24.1	14.1	16.2	9.6
United States Equities	**-11.0**	**15.2**	**1.8**	**3.1**	**1.9**	**-2.7**
S&P 1500 Index (4)	-10.6	15.3	2.4	3.9	2.3	-3.0
Non-North American Equities	**-3.0**	**26.8**	**13.1**	**12.3**	**11.8**	**1.2**
MSCI EAFE Index	-5.7	26.3	10.0	12.0	10.0	0.3
Foreign Equities	**-6.8**	**21.5**	**7.8**	**7.8**	**7.1**	**-0.6**
Foreign Equity Index (5)	-7.9	21.1	6.6	7.9	6.4	-1.4
Real estate	**20.8**	**21.3**	**29.9**	**10.6**	**20.5**	**n/a**
IPD Large Institutional All Property Index (6)	16.7	18.6	19.4	13.8	17.1	n/a
Alternative Investments	**16.3**	**15.5**	**15.9**	**-2.5**	**11.0**	**n/a**
Alternative Investments Index (7)	10.3	15.0	13.2	n/a	n/a	n/a

* Annual returns are the returns for one calendar year (12 months).
** Annualized returns convert multi-period returns (such as four years) into a compound annual return for ease of comparison between the time periods.

(1) The Consumer Price Index (CPI) is reported on a real-time basis. CPI data prior to 2007 used a base year of 1992. CPI data for 2007 used a base year of 2002.
(2) Combined DEX Universe Bond Index and Real Return Bond Index.
(3) S&P/TSX Capped Composite Index commenced in January 2005. Previously blended benchmark consisting of S&P/TSX Capped Composite Index and Nesbitt Burns Small Cap Index.
(4) S&P 1500 Index commenced in May 2004. Previously S&P 500 Index.
(5) Combined S&P 1500 Index and MSCI EAFE Index.
(6) Changed to IPD Large Institutional All Property Index from the IPD All Property Index effective May 1, 2004. Prior to January 1, 2003, the Real Estate Index was the Russell Canadian Property Index (RCPI).
(7) Combined TSX Composite + 2.5 per cent for private equity, CPI + 6 per cent for private income and HFRX Global Investable Index (Hedged C$) for absolute return strategies. The CPI in the private income benchmark is calculated and reported on a one-month lagged basis due to timing difference in reporting between AIM and Statistics Canada throughout the year.

AIM's performance is compared to the policy benchmark to measure the effectiveness of AIM's investment decisions. Performance is reviewed quarterly, with emphasis on four-year returns.

In 2007, the Plan recorded an overall return of 2.7 per cent from its investments. 0.1 per cent better than the policy benchmark return of 2.6 per cent. Over four years, the Plan's investments returned 9.9 per cent, 0.6 per cent better than the benchmark return of 9.3 per cent. On an eight-year basis, the Plan returns 6.2 per cent, exceeding the policy benchmark return of 5.7 per cent by 0.5 per cent.

The table below shows the value added by AIM in comparison to the various components of the policy benchmark.

Value Added/Lost by Manager In Comparison to Benchmarks		
	1 Year %	4 Years %
Short-term Fixed Income	0.8	0.4
Bonds and Mortgages	-1.8	0.1
Real Rate of Return Bonds	0.1	0.1
Canadian Equity	-0.6	0.5
U.S. Equity	-0.4	-0.4
Non-North American Equity	2.7	1.8
Real Estate	4.1	3.4
Alternative Investments	6.0	n/a
Total Value Added	**0.1**	**0.6**

Fixed Income Investments

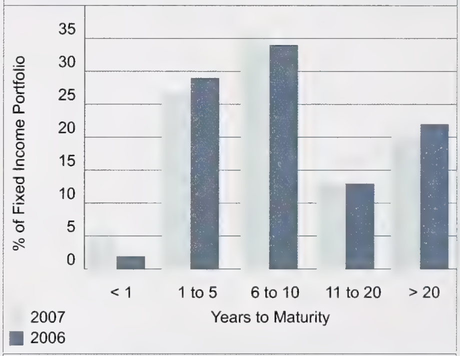
During 2007, the U.S. Federal Reserve decreased its federal funds rate to 4.25 per cent, down 1.00 per cent from the beginning of the year. In Canada, the target overnight rate started the year at 4.25 per cent. In July 2007, the Bank of Canada increased the target overnight rate by 0.25 per cent before reversing the increase in December to finish the year unchanged at 4.25 per cent.

Overall, the Canadian bond market performed moderately well this year. The DEX Universe Bond Index measures the performance of marketable Canadian bonds with terms to maturity of more than one year. Over the past year, the Index increased by 3.7 per cent compared to an increase of 4.1 per cent the previous year, while the DEX Real Return Bond Index increased by 1.6 per cent compared to a decrease of 2.9 per cent last year. The short-term DEX 91-Day T-Bill Index increased by 4.4 per cent compared to 4.0 per cent the previous year.

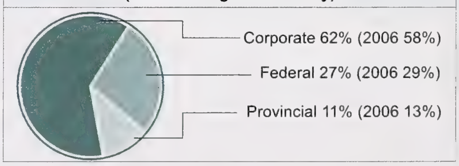
The Plan's actual rate of return over one year from long-term Canadian bonds and mortgages was 1.9 per cent, 1.8 per cent lower than the benchmark of 3.7 per cent. The Plan's actual return from real rate of return bonds was 1.7 per cent, 0.1 per cent better than the benchmark of 1.6 per cent. Over four years, the return from long-term bonds and mortgages was 5.4 per cent, 0.1 per cent better than the benchmark of 5.3 per cent while real rate of return bonds returned 7.6 per cent, 0.1 per cent better than the benchmark of 7.5 per cent.

At December 31, 2007, investments in fixed income securities increased to 36.9 per cent of total investments from 35.7 per cent at the end of the previous year. Fixed income investments now total $867 million, up $66 million, from $801 million the previous year.

Fixed Income Term to Maturity Profile



Summary of Fixed Income Holdings (issued and guaranteed by)

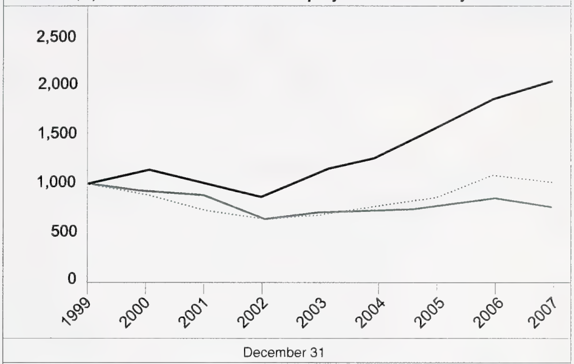


Equity Investments

Given the MEPP's long-term investment horizon, its asset mix policy is structured to capture the historically higher rates of return from equities. Equities represent 52.4 per cent of the Plan's total asset mix at December 31, 2007 and consist of 23.4 per cent in Canadian, 13.6 per cent in U.S. and 15.4 per cent in non-North American markets.

The chart on the right shows the growth in $1,000 dollars invested from December 31, 1999 to December 31, 2007 in each of the three major equity markets: the S&P/TSX Composite Index in Canada, S&P 1500 Index in the U.S. and the MSCI EAFE Index in the non-North American equity market.

$1,000 Canadian Invested in Equity Indexes over 8 years



* S&P/TSX Capped Composite Index commenced in January 2005. Previously blended benchmark consisting of S&P/TSX Capped Composite Index and Nesbitt Burns Small Cap Index.

** S&P 1500 Index commenced in May 2004. Previously S&P 500 Index.

Canadian Equities

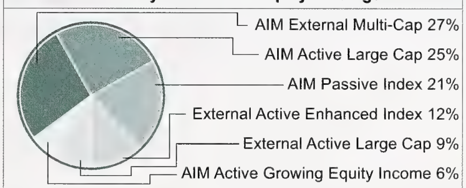
At December 31, 2007, Canadian equities represent 23.4 per cent of the MEPP's total investments (or $551 million) compared to 22.1 per cent (or $495 million) at the end of the previous year. Canadian equities are managed through several strategies including both passive index and active mandates. AIM directly manages the passive index and certain active large cap strategies. External investment advisors also actively manage a large cap strategy (investing in companies with large market capitalization and incorporating value, growth, and core styles).

The actual return from Canadian equity investments over the year was 9.2 per cent, 0.6 per cent less than the benchmark S&P/TSX Capped Composite Index of 9.8 per cent.

Canadian Equities

	Actual Return	Benchmark Return
1 Year	9.2%	9.8%
4 Years	16.7%	16.2%
8 Years	10.1%	9.6%

Summary of Canadian Equity Holdings



Canadian Equity Holdings

	By Industry Sector December 31, 2007	(Millions) $	Per cent %
1	Financials	159	30.4
2	Energy	143	27.3
3	Materials	83	16.0
4	Telecommunications	33	6.3
5	Industrials	30	5.7
6	Consumer discretionary	29	5.6
7	Information technology	27	5.2
8	Consumer staples	12	2.2
9	Utilities	5	1.0
10	Health care	2	0.3
		523	**100**
	Other assets net of liabilities	28	
		551	

Canadian Equity Holdings

	Top 10 Companies December 31, 2007	(Millions) $	Per cent %
1	Toronto-Dominion Bank (The)	22	4.3
2	EnCana Corporation	21	4.0
3	Suncor Energy Inc.	19	3.7
4	Royal Bank of Canada	17	3.3
5	Research in Motion	16	3.1
6	Manulife Financial Corporation	16	3.0
7	Bank of Nova Scotia (The)	15	2.9
8	Canadian Natural Resources Limited	15	2.9
9	Canadian Imperial Bank of Commerce	15	2.8
10	Barrick Gold Corp	13	2.4

Foreign Equities

The foreign equity allocation is divided into U.S. and non-North American equity markets. The non-North American segment includes investments in Europe, Australasia and the Far East (EAFE) and Emerging Markets. Emerging Markets includes exposure to developed emerging markets on an opportunistic basis.

U.S. Equities

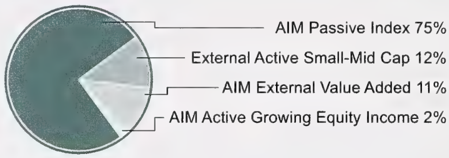
At December 31, 2007, U.S. equities comprised 13.6 per cent of the Plan's investments (or $319 million) compared to 15.9 per cent (or $354 million) the previous year. AIM directly manages passive index and large cap strategies while external investment advisors manage active small-mid cap strategies. The AIM/external value-added strategy (i.e. portable alpha strategy) provides exposure to the S&P 500 Index with value added provided by external hedge fund managers.

The actual return from U.S. equities over the year was negative 11.0 per cent, 0.4 per cent less than the benchmark S&P 1500 Index return of negative 10.6 per cent, measured in Canadian dollars.

U.S. Equities (in Canadian dollars)

	Actual Return	Benchmark Return
1 Year	-11.0%	-10.6%
4 Years	1.9%	2.3%
8 Years	-2.7%	-3.0%

Summary of United States Equity Holdings



U.S. Equity Holdings

	By Industry Sector December 31, 2007	(Millions) $	Per cent %
1	Financials	56	17.6
2	Information technology	53	16.4
3	Energy	39	12.1
4	Health care	39	12.1
5	Industrials	38	11.9
6	Consumer staples	30	9.5
7	Consumer discretionary	30	9.4
8	Utilities	12	3.9
9	Materials	12	3.8
10	Telecommunications	11	3.3
		320	**100**
	Liabilities, net of assets	-1	
		319	

U.S. Equity Holdings

	Top 10 Companies December 31, 2007	(Millions) $	Per cent %
1	Exxon Mobil Corporation	11	3.5
2	General Electric Company	8	2.5
3	Microsoft Corporation	6	1.9
4	American Telephone & Telegraph	5	1.7
5	Proctor & Gamble Company (The)	5	1.5
6	Chevron Corporation	4	1.3
7	Johnson & Johnson	4	1.3
8	Bank of America Corporation	4	1.2
9	Intel Corporation	4	1.2
10	Apple Computers Inc.	4	1.2

Non-North American Equities

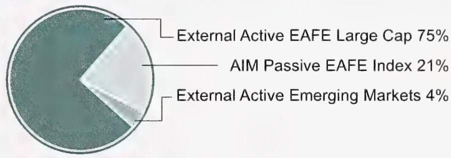
Non-North American equities comprised 15.4 per cent (or $364 million) of total Plan investments at December 31, 2007 compared to 16.7 per cent (or $374 million) the previous year. External investment advisors manage the 79 per cent of the non-North American equity portfolio through active large cap and emerging market strategies. AIM directly manages 21 per cent of the portfolio through a passive index strategy.

The actual return from non-North American equity markets over the year totalled negative 3.0 per cent, 2.7 per cent better than the benchmark MSCI EAFE Index of negative 5.7 per cent measured in Canadian dollars.

Non-North American Equities (in Canadian dollars)

	Actual Return	Benchmark Return
1 Year	-3.0%	-5.7%
4 Years	11.8%	10.0%
8 Years	1.2%	0.3%

Summary of Non-North American Equity Holdings



Non-North American Equity Holdings

	By Industry Sector December 31, 2007	(Millions) $	Per cent %
1	Financials	77	21.8
2	Industrials	53	15.0
3	Consumer discretionary	41	11.6
4	Energy	31	8.8
5	Materials	30	8.7
6	Telecommunications	29	8.3
7	Consumer staples	25	7.2
8	Health care	25	7.0
9	Information technology	24	6.7
10	Utilities	17	4.9
		352	**100**
	Other assets net of liabilities	12	
		364	

Non-North American Equity Holdings

	Top 10 Companies December 31, 2007	(Millions) $	Per cent %
1	Total SA	7	2.0
2	Vodafone Group	6	1.7
3	Telefonica SA	6	1.6
4	Royal Dutch Shell	5	1.5
5	BP PLC	5	1.4
6	Nokia OYJ	5	1.4
7	Novaritis AG	5	1.3
8	Sanofi-Aventis SA	4	1.2
9	GlaxoSmithKline PLC	4	1.2
10	Siemens AG	4	1.2

Real Estate

At December 31, 2007, the Plan's real estate portfolio comprised 7.4 per cent (or $173 million) of total investments compared to 7.1 per cent (or $158 million) the previous year. Investments are primarily in a mix of office, retail, industrial and residential properties in major Canadian urban areas including Toronto, Ottawa, Montreal, Calgary, Edmonton, and Vancouver. The focus is on quality, featuring strong locations and tenants.

The actual real estate return in 2007 was 20.8 per cent, 4.1 per cent better than the benchmark IPD Large Institutional All Property Index return of 16.7 per cent.

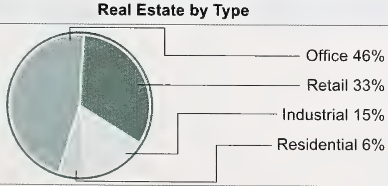
Real Estate

	Actual Return	Benchmark Return
1 Year	20.8%	16.7%
4 Years	20.5%	17.1%
8 Years	n/a	n/a

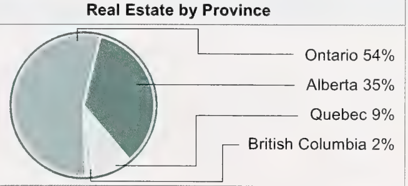
Real Estate Holdings

	Top 5 Real Estate Holdings December 31, 2007	Location	Sector
1	Yorkdale Shopping Centre	Toronto, Ontario	Retail
2	Place Ville Marie	Montreal, Quebec	Office
3	Square One Shopping Centre	Mississauga, Ontario	Retail
4	Scarborough Town Centre	Toronto, Ontario	Retail
5	Bow Valley Square	Calgary, Alberta	Office

Real Estate by Type



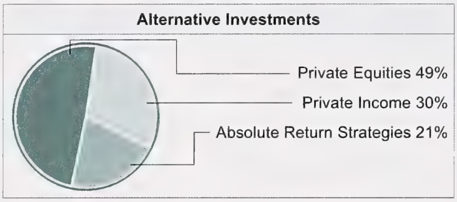
Real Estate by Province



Alternative Investments

At December 31, 2007, the Plan's alternative investment portfolio comprised 3.3 per cent (or $78 million) of total investments compared to 2.5 per cent (or $56 million) the previous year. The alternative investment portfolio consists of private equities, private income and absolute return strategy investments. These investments are both relatively illiquid asset classes and require time to build and exit the investments.

The actual return from alternative investments in 2007 was 16.3 per cent, 6.0 per cent better than the benchmark return of 10.3 per cent, which consists of the S&P/TSX Composite Index plus 2.5 per cent for private equity, CPI plus 6.0 per cent for private income and the HFRX Global Investable Index (hedged Canadian dollars) for absolute return strategies.



Private Equities

Private equity investments comprised 1.6 per cent (or $38 million) of the total investment portfolio at December 31, 2007 compared to 1.3 per cent (or $29 million) the previous year. Private equity investments include primarily venture capital and merchant banking investments. Venture capital investments include early stage financings and in some cases financing start-up companies. Merchant banking transactions include expansion capital, acquisition financing, management buyouts, family succession, turnaround financings, project financings and leverage reductions. In 2007, private equities returned 21.0 per cent.

Private Income

Private income investments comprised 1.0 per cent (or $24 million) of the total investment portfolio at December 31, 2007 compared to 0.8 per cent (or $18 million) the previous year. Private income investments include infrastructure related projects that are structured to yield high current income. Infrastructure projects include transportation/logistics (e.g. toll roads, airports, ports and rail), power energy (e.g. contracted power generation and power transmission pipelines) and utilities (e.g. water, waste water and natural gas networks). In 2007, private income investments returned 14.1 per cent.

Absolute Return Strategies

Absolute return strategies (hedge funds) comprised 0.7 per cent (or $16 million) of the total investment portfolio at December 31, 2007 compared to 0.4 per cent (or $9 million) the previous year. This class of investment encompasses a wide variety of strategies with the objective of realizing positive returns regardless of the overall market direction. Absolute return strategies include hedge fund strategies such as convertible arbitrage, distressed securities, event driven, equity market neutral and merger arbitrage. In 2007, absolute return strategies returned 9.4 per cent.

AIM's Forward Looking Statements

Difficulties in global credit markets, evident since the middle of 2007, may hamper global growth prospects through 2008. Globally, financial institutions have been impacted in two ways. First, they have taken losses on assets held directly on their books. Second, the rapid reduction in the willingness of non-banks to hold risky assets has forced financial institutions to hold more loans than they would otherwise have expected. This process limits the financial sector's ability and/or willingness to extend new credit to businesses and households for investment and consumption. This limitation could lead to a reduction in global growth through 2008.

The United States housing market is the root of the global financial difficulties in 2007. There remains an oversupply of housing, suggesting that U.S. residential investment will remain weak through 2008. The constraints on the financial system may likely hamper nonresidential investment through the year and will likely also put downward pressure on the U.S. consumer. Weaker U.S. and global growth suggest a high likelihood of slower growth in Canada, with downward pressure on commodity prices.

Slower growth suggests downward pressure on corporate profit growth. Financial markets have already responded to this likelihood by selling off sharply in early 2008. While equity markets will respond positively when there is the appearance that the worst of the economic news is known, markets will likely remain volatile through the first half of 2008, at a minimum. Interest rates, already lower as central banks attempt to counter the constraints on the global financial system, will also remain choppy. At the outset of 2008, we expect further interest rate cuts from both the U.S. Federal Reserve Board and the Bank of Canada.

The disruption in the global credit markets has tightened real estate lending requirements in North America and Europe, putting moderate leverage investors in a better position to secure deals at improved pricing. In Asia, real estate markets appear positioned for further growth driven by rapidly growing investor interest, a ready supply of debt capital and strengthening fundamentals. These market fundamentals suggest a positive outlook for investment in real estate. In the last few years, real estate has provided good returns to investors and in general institutional investors are increasing their allocations to real estate. While these favorable market conditions may continue, there are signs it is a time to be defensive, patient and disciplined.

Risk Management System

AIM has developed a market risk management system to model and measure the market risks associated with investments for the MEPP. In the future, the risk system will provide a framework for measuring, monitoring, and managing risk to assist in future decisions regarding investment and risk policies.

Proxy Voting

The MEP Board delegates responsibility for proxy voting to AIM. Pension funds are managed in the best interests of beneficiaries. AIM sources proxy advisory services through ISS Governance Services and is a member of the Canadian Coalition of Good Governance (CCGG).

ISS, a division of Risk Metrics Group, has over 200 analysts providing comprehensive, recommendation-based research on at least 38,000 meetings spanning more than 100 markets worldwide. ISS votes the proxy and each proxy is subject to rigorous analysis where votes are cast solely in the interests of Plan participants and beneficiaries. AIM retains the right to over-ride ISS should votes appear to be contrary to AIM principles.

AIM monitors the opinions of the CCGG and peer organizations regarding potentially contentious issues and the governance practices of specific companies.

Plan Administration

Alberta Pensions Administration Corporation (APA) administers the MEPP under an Administrative Services Agreement with the Minister of Finance. APA's administrative activities include the collection of member data and contributions, calculation and payment of pension benefits, maintenance of membership records, provision of support to the MEP Board, and communication of valuable pension information to members, pensioners and employers.

Initiatives

Important changes in 2007 included:

- ***Call Centre Improvement Project.*** This project involved training and technological improvements designed to better position the Member Service Centre to respond to the anticipated increase in pension inquiries in the future.
- ***Reciprocal Transfer Agreements.*** At the request of the Ministry of Finance, APA worked in conjunction with the Board and Alberta Finance to negotiate new reciprocal transfer agreements. These agreements make it easier for members to transfer their pension benefit earned under an approved pension plan into the MEPP, or to transfer their MEPP benefit to another participating pension plan when they move to another organization.
- ***Deferred member statements.*** Members who had left their employer but had chosen to leave their pension with the MEPP (approximately 10 per cent of the member base) were issued annual statements for the first time in 2007, giving them the opportunity to easily determine the value of their pension with the MEPP.
- ***Corporate reorganization and strategic planning.*** In order to effectively manage the anticipated growth in pensioner numbers (due to the retirement of the baby boomer generation) a long-term view of operations was developed, which translated into a reorganization within APA. A *Five-year Strategic Plan* was also developed to better utilize available technology and employee expertise to deliver proactive, responsive, and client-focused service to members, employers and plan governors now and in the future.

Member Service Costs

APA aims to provide services in an efficient and cost-effective manner. APA's costs are distributed among the public sector pension plans it serves. MEPP per member costs are based on a cost-share formula, determined by the Minister of Finance.

The cost per member for administrative services decreased 5.1 per cent to $150 in 2007 (2006: $158). APA's operating costs decreased by $17 per member, mainly due to lower than anticipated staff levels. Board and Plan-specific costs increased by $9 per member in 2007. This is mainly attributed to increased consulting work undertaken by the Board during the year.

Cost per Member	**2007 $**	**2006 $**
Administration Operating Costs	114	131
Board and Plan-specific Costs	36	27
Total Plan Operating Costs	**150**	**158**

Communication and Education Services

MEPP members and employers were provided with a number of tools in 2007 that made it easier for them to understand, manage and access information about their pensions.

MEPP members were provided with annual report highlights and member statements with an updated users' guide, given the opportunity to attend information seminars, and were sent welcome packages if they were new to the Plan.

MEPP employers were sent the monthly electronic employer newsletter, *Pension e-news*, which continued to give them up-to-date and easy access to pension information. *Pension e-guide*, the electronic manual for employers, was launched in its entirety in 2007, providing employers a consistent, online information source for administration issues.

Plan members and other interested persons visited the MEPP website (www.mepp.ca) in increasing numbers in 2007. Just over 15,560 hits were made on the site in 2007, compared to 12,480 hits in 2006. Members continued to take advantage of the pension estimator function and access their personal pension information through the secure **mypensionplan** site.

The Year Ahead

Key plans for 2008 include:

- Reviewing three of the MEPP's member and employer products and forms to streamline information.
- Addressing the anticipated volume in pension inquiries by enhancing internet-enabled self-service.
- Ensuring service levels for members, employers and pensioners meet or exceed expectations.
- Working to find enhanced, proactive initiatives that meet the needs of the MEPP's members, pensioners and employers.

For further information on the Plan or to access the **mypensionplan** site, please refer to the MEPP website at www.mepp.ca. For additional information on Alberta Pensions Administration Corporation, please refer to www.apaco.ab.ca.

2007 FINANCIAL STATEMENTS

ACTUARY'S OPINION

Aon Consulting Inc. was retained by the Management Employees Pension Board (MEP Board) to perform actuarial valuations of the assets and liabilities of the Management Employees Pension Plan as at December 31, 2006. Aon Consulting Inc. was further retained to prepare extrapolations of the valuation results to December 31, 2007, for inclusion in the Annual Report with respect to the Management Employees Pension Plan for the Year Ended December 31, 2007.

The valuation and extrapolation of the Plan's actuarial assets and liabilities were based on:

- Membership data provided by the Alberta Pensions Administration Corporation (APA) as at December 31, 2006, and asset data provided by APA as at December 31, 2006, and December 31, 2007.
- Methods prescribed by the Canadian Institute of Chartered Accountants for pension plan financial statements; and
- Assumptions about future events (economic and demographic) which were developed by management and Aon Consulting Inc. and are considered as management's best estimate of these events.

While the actuarial assumptions used to estimate liabilities for the Plan's financial statements contained in the Annual Report represent management's best estimate of future events, and while in our opinion these assumptions are reasonable, the Plan's future experience will differ from the actuarial assumptions. Emerging experience differing from the assumptions will result in gains or losses that will be revealed in future valuations, and will affect the financial position of the Plan.

I have tested the data for reasonableness and consistency with prior valuations and in my opinion the data is sufficient and reliable for the purposes of the valuation and the extrapolation. I also believe that the methods employed in the valuation and extrapolation and the assumptions used are, in aggregate, appropriate. My opinions have been given, and my valuation and extrapolation have been performed in accordance with accepted actuarial practice.

Wayne R. Berney

Wayne R. Berney
Fellow, Canadian Institute of Actuaries
Fellow, Society of Actuaries

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The Management Employees Pension Plan (Plan) financial statements and financial information in the 2007 Annual Report are the responsibility of the Minister of Finance. Certain of these responsibilities are undertaken on behalf of the Minister of Finance by:

- Alberta Investment Management (AIM), the investment operation of Alberta Finance, which is only responsible for the management of assets, subject to legislation and to the investment policies and goals approved by the Plan Board;
- Alberta Pensions Administration Corporation (APA), which is only responsible for administration of the Plan under an Administrative Services Agreement with the Minister of Finance. This responsibility also includes compilation of the Plan's Annual Report; and

The information in the annual report has been approved by the Plan Board. The financial statements were approved by the Deputy Minister of Finance, based on information provided by APA and the Plan's actuary, and after consultation with the Plan Board.

The financial statements have been prepared by Alberta Finance in conformity with Canadian generally accepted accounting principles and, of necessity, include some amounts that are based on estimates and judgments. Financial information presented in the 2007 Annual Report that relates to the operations and financial position of the Plan is consistent with that in the financial statements.

To discharge their responsibility for the integrity and objectivity of financial reporting, Alberta Finance, APA and AIM each maintain a system of internal controls comprising written policies, standards and procedures, and a formal accountability structure. These systems are designed to provide management of these entities with reasonable assurance that transactions are properly authorized, reliable financial records are maintained, and assets are adequately accounted for and safeguarded.

The Auditor General of Alberta, the Plan's external auditor, provides an independent audit of the financial statements.

Robert Bhatia

Robert Bhatia
Deputy Minister of Finance

March 11, 2008

AUDITOR'S REPORT

To the Minister of Finance and Enterprise

I have audited the Statement of Net Assets Available for Benefits and Accrued Benefits of the Management Employees Pension Plan (the Plan) as at December 31, 2007 and the Statements of Changes in Net Assets Available for Benefits, Changes in Accrued Benefits and Changes in Deficiency for the year then ended. These financial statements are the responsibility of the Plan's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the Net Assets Available for Benefits and Accrued Benefits of the Plan as at December 31, 2007 and the Changes in Net Assets Available for Benefits, Changes in Accrued Benefits and Changes in Deficiency for the year then ended in accordance with Canadian generally accepted accounting principles.

Fred J. Dunn

Fred Dunn, FCA
Auditor General

Edmonton, Alberta
March 11 , 2008

MANAGEMENT EMPLOYEES PENSION PLAN

Statement of Net Assets Available for Benefits and Accrued Benefits

As at December 31, 2007

	2007	2006
	($ thousands)	
Net Assets Available for Benefits		
Assets		
Investments (Note 3)	$ 2,351,906	$ 2,237,985
Accrued investment income and accounts receivable	192	513
Contributions receivable		
Employees	3,506	3,128
Employers	5,996	5,347
	2,361,600	2,246,973
Liabilities		
Accounts payable	300	81
Net assets available for benefits	2,361,300	2,246,892
Accrued benefits		
Actuarial value of accrued benefits	2,445,641	2,253,657
Deficiency	**$ (84,341)**	**$ (6,765)**

The accompanying notes and schedules are part of these financial statements.

MANAGEMENT EMPLOYEES PENSION PLAN

Statement of Changes in Net Assets Available for Benefits

For the year ended December 31, 2007

	2007	2006
	($ thousands)	
Net investment income (Note 6)		
Investment income	$ 65,059	$ 279,150
Investment expenses	(5,081)	(3,958)
	59,978	275,192
Member service operations		
Contributions		
Current and optional service		
Employees	42,606	38,774
Employers	71,857	65,229
Pension benefits	(93,819)	(84,937)
Refunds to members	(5,987)	(4,653)
Additional Government contribution (Note 7)	40,000	-
Transfers from other plans, net	985	322
Member service expenses (Note 8)	(1,212)	(1,207)
	54,430	13,528
Increase in net assets	114,408	288,720
Net assets available for benefits at beginning of year	2,246,892	1,958,172
Net assets available for benefits at end of year	**$ 2,361,300**	**$ 2,246,892**

The accompanying notes and schedules are part of these financial statements.

MANAGEMENT EMPLOYEES PENSION PLAN

Statement of Changes in Accrued Benefits

For the year ended December 31, 2007

	2007	2006
	($ thousands)	
Increase in accrued benefits		
Interest accrued on benefits	$ 155,252	$ 143,120
Benefits earned	83,538	75,738
	238,790	218,858
Decrease in accrued benefits		
Benefits paid and transfers	(98,821)	(89,268)
Other changes in accrued benefits		
Net experience losses	28,942	-
Losses due to changes in actuarial assumptions (Note 9(a))	23,073	-
	52,015	-
Net increase in accrued benefits	191,984	129,590
Accrued benefits at beginning of year	2,253,657	2,124,067
Accrued benefits at end of year (Note 9)	**$ 2,445,641**	**$ 2,253,657**

The accompanying notes and schedules are part of these financial statements.

MANAGEMENT EMPLOYEES PENSION PLAN

Statement of Changes in Deficiency

For the year ended December 31, 2007

	2007	2006
	($ thousands)	
Deficiency at beginning of year	$ (6,765)	$ (165,895)
Increase in net assets available for benefits	114,408	288,720
Net increase in accrued benefits	(191,984)	(129,590)
Deficiency at end of year	**$ (84,341)**	**$ (6,765)**

The accompanying notes and schedules are part of these financial statements.

MANAGEMENT EMPLOYEES PENSION PLAN

Notes to the Financial Statements

December 31, 2007

(All dollar amounts in thousands, except per member data)

Note 1 — Summary Description of the Plan

The following description of the Management Employees Pension Plan (the Plan) is a summary only. For a complete description of the Plan, reference should be made to the *Public Sector Pension Plans Act,* Chapter P-41, Revised Statutes of Alberta 2000 and Alberta Regulation 367/93, as amended.

(a) General

The Plan is a contributory defined benefit pension plan for eligible management employees of the Province of Alberta and certain approved provincial agencies and public bodies. Members of the former Public Service Management Pension Plan who were active contributors at August 1, 1992, and have not withdrawn from the Plan since that date, continue as members of this Plan. The Plan is a registered pension plan as defined in the *Income Tax Act.* The Plan's registration number is 0570887. The Minister of Finance acts as trustee for the Plan.

(b) Plan Funding

Current service costs and the Plan's actuarial deficiency (see Note 9) are funded by employee and employer contributions at rates which together with investment earnings are expected to provide for all benefits payable under the Plan. The rates in effect at December 31, 2007 were unchanged at 10.5 per cent of pensionable salary up to the *maximum pensionable salary limit* under the federal *Income Tax Act* for employees and 18.0 per cent for employers. The rates are reviewed at least once every three years by the Minister of Finance, in consultation with the Board, based on recommendations of the Plan's actuary.

(c) Retirement Benefits

The Plan provides a pension of 2.0 per cent for each year of pensionable service based on the average salary of the highest five consecutive years. Pensionable earnings after December 31, 1991 are capped at the *maximum pensionable salary limit* under the federal *Income Tax Act.* The maximum service allowable under the Plan is 35 years.

Pensions are payable to members who have attained age 65 at retirement.

Members are entitled to an unreduced pension on service before 1992 if they have attained age 55 and have at least five years of service.

Members are entitled to an unreduced pension on service after 1991 if they retire with at least five years of service and have either attained age 60, or age 55 and the sum of their age and years of service equals 80. Pensions on service after 1991 are reduced if the member is under age 60 and the 80 factor is not attained.

(d) Disability Benefits

Pensions may be payable to members who become totally disabled and retire early with at least five years of service. Reduced pensions may be payable to members who become partially disabled and retire early with at least five years of service.

Individuals who became members after June 30, 2007 and had no combined pensionable service prior to July 1, 2007 are not entitled to disability benefits.

Note 1 — Summary Description of the Plan (continued)

(e) Death Benefits

Death benefits are payable on the death of a member. If the member has at least five years of service, a surviving pension partner may choose to receive a survivor pension, or a lump sum payment. For a beneficiary other than a pension partner, or where service is less than five years, the benefits take the form of a lump sum payment.

(f) Termination Benefits and Refunds to Members

Members who terminate with fewer than five years of service receive a refund of their contributions plus interest. The refunds are accounted for as refunds to members on the Statement of Changes in Net Assets Available for Benefits.

Members who terminate with more than five years of service and are not immediately entitled to a pension may apply for a lump sum payment or a deferred pension. The lump sum payment is based on contributions and interest in relation to service before 1992 and commuted value for service after 1991. The commuted value portion of the lump sum payment is subject to the Plan's lock-in provisions.

(g) Optional Service and Transfers

All optional service purchases are to be cost-neutral to the Plan.

Reciprocal agreements provide that transferred-in service be on an actuarial reserve basis and transfers out receive the greater of the commuted value for all service or all contributions made by the member to the Plan.

(h) Cost-of-Living Adjustments

Pensions payable are increased each year on January 1st by an amount equal to 60 per cent of the increase in the Alberta Consumer Price Index. The increase is based on the increase during the twelve-month period ending on October 31st in the previous year.

(i) Guarantee

The Province of Alberta guarantees payment of all benefits arising from service before 1994.

Note 2 — Summary of Significant Accounting Policies and Reporting Practices

(a) Basis of Presentation

These financial statements are prepared on the going concern basis in accordance with Canadian generally accepted accounting principles. The statements provide information about the net assets available in the Plan to meet future benefit payments and are prepared to assist plan members and others in reviewing the activities of the Plan for the year.

Except for real rate of return bonds which are held directly by the Plan, Plan investments are held in pooled investment funds administered by Alberta Finance. Pooled investment funds have a market-based unit value that is used to allocate income to pool participants and to value purchases and sales of pool units.

(b) Valuation of Assets and Liabilities

Investments are stated at fair value. The methods used to determine the fair value of investments held either by the Plan or by pooled investment funds are explained in the following paragraphs:

(i) Short-term securities, public fixed income securities and equities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company.

(ii) Private fixed income securities and mortgages are valued based on the net present value of future cash flows. These cash flows are discounted using Government of Canada bond rates adjusted for a risk premium estimated by investment managers of Alberta Finance.

Note 2 — Summary of Significant Accounting Policies and Reporting Practices (continued)

(b) Valuation of Assets and Liabilities (continued)

(iii) The fair value of private equity and income investments are estimated by managers or general partners of private equity funds, pools and limited partnerships. Valuation methods may encompass a broad range of approaches. The cost approach is used to value companies without either profits or cash flows. Established private companies are valued using the fair market value approach reflecting conventional valuation methods including discounted cash flows and multiple earnings analyses.

(iv) Real estate investments are reported at their most recent appraised value net of any liabilities against the real property. Real estate properties are appraised annually by qualified external real estate appraisers using a combination of methods such as replacement cost, discounted cash flows, earnings multiples, prevailing market values for properties with similar characteristics and other pricing models.

(v) The fair value of Absolute Return Strategy Pool investments is estimated by external managers.

(vi) The fair values of deposits, receivables, accrued investment income and payables are estimated to approximate their book values.

(c) Income Recognition

Investment income and expenses are recorded on an accrual basis. Dividends are accrued on the ex-dividend date. Income from other investments is accrued as earned. Gains or losses on all investments are recognized concurrently with changes in fair value.

(d) Foreign Exchange

Foreign currency transactions are translated into Canadian dollars using average rates of exchange except for hedged foreign currency transactions, which are translated at rates of exchange established by the terms of the forward exchange contracts. At year-end, the fair value of investments and any other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rate. Exchange differences are included in the determination of net investment income.

(e) Valuation of Derivative Contracts

Derivative contracts (see Note 5) include equity and bond index swaps, interest rate swaps, forward foreign exchange contracts, equity index futures contracts, credit default swaps, cross-currency interest rate swaps and swap option contracts. The value of derivative contracts is included in the fair value of pooled investment funds. The estimated amount receivable or payable from derivative contracts at the reporting date is determined by the following methods:

(i) Equity and bond index swaps are valued based on changes in the appropriate market based index net of accrued floating rate interest.

(ii) Interest rate swaps and cross-currency interest rate swaps are valued based on discounted cash flows using current market yields and year-end exchange rates.

(iii) Forward foreign exchange contracts and equity index futures contracts are based on quoted market prices.

(iv) Credit default swaps are valued based on discounted cash flows using current market yields and calculated default probabilities.

(v) Swap option contracts are valued based on discounted cash flows using current market yields and volatility parameters which measure changes in the underlying swaps.

Note 2 — Summary of Significant Accounting Policies and Reporting Practices (continued)

(f) Measurement Uncertainty

In preparing these financial statements, estimates and assumptions are used in circumstances where the actual values are unknown. Uncertainty in the determination of the amount at which an item is recognized in financial statements is known as measurement uncertainty. Such uncertainty exists when there is a variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used.

Measurement uncertainty exists in the calculation of the Plan's actuarial value of accrued benefits and in the valuation of the Plan's private and alternative investments, absolute return strategies, and real estate investments. Uncertainty arises because:

(i) the Plan's actual experience may differ significantly from assumptions used in the calculation of the Plan's accrued benefits, and

(ii) the estimated fair values of the Plan's private and alternative investments, absolute return strategies, and real estate investments may differ significantly from the values that would have been used had a ready market existed for these investments.

While best estimates have been used in the calculation of the Plan's accrued benefits and in the valuation of the Plan's private and alternative investments, absolute return strategies, and real estate investments, management considers that it is possible, based on existing knowledge, that changes in future conditions in the short term could require a material change in the recognized amounts.

Differences between actual results and expectations are disclosed as assumption or other changes and net experience gains or losses in the statement of changes in accrued benefits in the year when actual results are known.

Differences between the estimated fair values and the amount ultimately realized are included in net investment income in the year when the ultimate realizable values are known.

Note 3 — Investments (Schedules A to E)

	2007 Fair Value ($ thousands)	2007 %	2006 Fair Value ($ thousands)	2006 %
Fixed Income Securities (Schedule A)				
Deposit in the Consolidated Cash Investment Trust Fund (a)	$ 10,780	0.5	$ 11,844	0.5
Universe Fixed Income Pool (b)	666,007	28.3	610,563	27.3
Private Mortgage Pool (c)	102,316	4.3	99,239	4.4
Real rate of return bonds (d)	80,725	3.4	65,908	2.9
Currency Alpha Pool (e)	3,202	0.1	5,479	0.3
Tactical Asset Allocation Pool (f)	3,725	0.2	7,732	0.3
	866,755	36.9	800,765	35.7
Canadian Equities (Schedule B)				
Canadian Structured Equity Pool (g)	112,959	4.8	198,157	8.9
Canadian Pooled Equities Fund (h)	137,914	5.9	132,596	5.9
Canadian Multi-Cap Pool (i)	150,411	6.4	53,960	2.4
Canadian Equity Enhanced Index Pool (j)	67,856	2.9	63,835	2.9
Canadian Large Cap Equity Pool (k)	50,516	2.1	45,272	2.0
Growing Equity Income Pool (l)	30,637	1.3	27,454	1.2
Private Equity Pool	1,194	-	4,593	0.2
Tactical Asset Allocation Pool -futures contract(f)	-	-	(31,114)	(1.4)
	551,487	23.4	494,753	22.1
United States Equities (Schedule C)				
U.S. Structured Equity Pool (m)	238,667	10.1	244,566	10.9
U.S. Small/Mid Cap Equity Pool (n)	38,941	1.7	36,894	1.7
Portable Alpha U.S. Pool (o)	34,627	1.5	32,884	1.5
Growing Equity Income Pool (l)	6,651	0.3	8,977	0.4
Tactical Asset Allocation Pool -futures contract(f)	-	-	31,114	1.4
	318,886	13.6	354,435	15.9
Non-North American Equities (Schedule D)				
EAFE Active Equity Pool (p)	273,154	11.6	279,349	12.5
Emerging Markets Equity Pool (q)	15,986	0.7	24,852	1.1
EAFE Structured Equity Pool(r)	74,402	3.1	60,243	2.7
EAFE Passive Equity Pool	-	-	9,983	0.4
	363,542	15.4	374,427	16.7
Real Estate Equities (Schedule E)				
Private Real Estate Pool (s)	173,182	7.4	157,730	7.1
Alternative Investments				
Private Equity Pools (t)	37,905	1.6	29,491	1.3
Private Income Pools (u)	23,755	1.0	17,697	0.8
Absolute Return Strategy Pool (v)	16,394	0.7	8,687	0.4
	78,054	3.3	55,875	2.5
Total equities	1,485,151	63.1	1,437,220	64.3
Total investments	**$ 2,351,906**	**100.0**	**$ 2,237,985**	**100.0**

Note 3 — Investments (Schedules A to E) (continued)

(a) The Consolidated Cash Investment Trust Fund is managed with the objective of providing competitive interest income to depositors while maintaining maximum security and liquidity of depositors' capital. The portfolio is comprised of high quality short-term and mid-term fixed income securities with a maximum term to maturity of three years.

(b) The Universe Fixed Income Pool is managed with the objective of providing competitive returns comparable to the total return of the DEX Universe Bond Index over a four-year period while maintaining adequate security and liquidity of participants' capital. The portfolio is comprised of high quality Canadian fixed income instruments and debt related derivatives. Competitive returns are achieved through management of the portfolio duration and sector rotation.

(c) The Private Mortgage Pool is managed with the objective of providing investment returns higher than the DEX Universe Bond Index over the long term. The portfolio is comprised primarily of high-quality commercial mortgage loans and provincial bond residuals. The pool primarily invests in loans insured by a federal agency and first-mortgage loans that provide diversification by property usage and geographic location.

(d) Real rate of return bonds are issued or guaranteed by the Government of Canada and bear interest at a fixed rate adjusted for inflation.

(e) The Currency Alpha Pool is managed with the objective of providing a fair return over a four-year period while reducing return volatility through multiple manager investment styles and strategies. The return is achieved through active currency management with currency positions established primarily through forward foreign exchange contracts.

(f) The Tactical Asset Allocation Pool provides participants with a quick, effective and efficient way to earn excess returns, on an opportunistic basis, by altering the portfolio weights of broad asset classes using synthetic instruments. At December 31, 2007, the Pool is comprised of cash and fixed income securities and a neutral position through United States equity index futures. Cash and short-term securities held by the Pool support approximately 5 per cent to 10 per cent of the Pool's notional exposure in United States equity index futures contracts.

(g) The Canadian Structured Equity Pool is managed on a passive approach with the objective of providing investment returns comparable to the total return of the S&P/TSX Composite Index. The portfolio is comprised of both publicly traded Canadian equities and structured investments replicating the S&P/TSX Composite Index. The pooled fund also invests in the Floating Rate Note Pool to generate the floating rate cash flows needed for its equity swap obligations.

(h) The Canadian Pooled Equities Fund is managed with the objective of providing returns higher than the total return of the S&P/TSX Composite Index while maintaining preservation of participants' capital. The portfolio is comprised of publicly traded equities in Canadian corporations and is designed to reduce risk by prudent security selection and sector rotation.

(i) The Canadian Multi-Cap Pool consists of a single portfolio with multiple components. The large cap component is internally managed and provides exposure to the Canadian equity market through structured investments replicating the S&P/TSX 60 Index. The small/mid cap component is comprised of investments in the External Managers Canadian Multi-Cap Pool. The performance objective is to provide investment returns higher than the total return of the S&P/TSX Composite Index over a four-year period. The pooled fund also invests in the Floating Rate Note Pool to generate the floating rate cash flows needed for its equity swap obligations.

Note 3 — Investments (Schedules A to E) (continued)

(j) The Canadian Equity Enhanced Index Pool consists of a single portfolio of publicly traded Canadian equities in the large cap market and is designed to generate a consistent level of investment return above the total return of the S&P/TSX Composite Index over a four-year period with relatively low risk.

(k) The Canadian Large Cap Equity Pool consists of multiple portfolios of publicly traded Canadian equities which are actively managed by an external manager with expertise in the Canadian large cap equity markets. The performance objective is to provide investment returns higher than the total return of the S&P/TSX Composite Index over a four-year period while reducing return volatility through multiple manager investment styles and unique market capitalization focus.

(l) The Growing Equity Income Pool is managed with the objective of providing a steady and growing stream of dividend income by investing in mature companies with strong financial characteristics and growing distributions. Risk is reduced by holding established well-capitalized companies. The performance of the Pool is measured against the total return of the S&P/TSX Composite Dividend Paying Stock Index.

(m) The U.S. Structured Equity Pool is passively managed. The portfolio is comprised of publicly traded United States equities similar in weights to the S&P 500 Index. The performance objective is to provide investment returns comparable to the total return of the S&P 500 Total Return Index. The pool utilizes a combination of pure security replication and synthetic replication strategies to obtain exposure to the benchmark. To enhance investment returns with no substantial increase in risks, the pool also invests in futures, swaps and other structured investments. The pooled fund also invests in the Floating Rate Note Pool to generate the floating rate cash flows needed for its equity swap obligations.

(n) The U.S. Small/Mid Cap Equity Pool consists of multiple portfolios of publicly traded United States equities. Each portfolio is actively managed by an external manager with expertise in the U.S. Small/Mid Cap equity markets. The performance objective is to provide returns higher than the total return of the Russell 2500 Index for the U.S. Small/Mid Cap Pool over a four-year period while reducing return volatility through multiple manager investment styles and unique market capitalization focus.

(o) The Portable Alpha U.S. Pool provides exposure to the United States equity market by replicating the S&P 500 Index with S&P 500 index swaps and futures contracts. Externally managed absolute return strategy investments and money market instruments are actively used as underlying securities to add value to the exposure. The performance objective is to provide returns higher than the S&P 500 Index over a four-year period.

(p) The EAFE (Europe, Australasia and Far East) Active Equity Pool consists of multiple portfolios of publicly traded Non-North American equities. Portfolios are actively managed by external managers with European and Pacific Basin mandates. The performance objective is to provide returns higher than the total return of the Morgan Stanley Capital International (MSCI) EAFE Index over a four-year period.

(q) The Emerging Markets Equity Pool consists of publicly traded equities in emerging markets around the world. The portfolios are actively managed by external managers with expertise in emerging markets. The performance objective is to provide returns higher than the total return of the Morgan Stanley Capital Index (MSCI) Emerging Markets Free Net (EMF) Index over a four-year period.

(r) The EAFE Structured Equity Pool's performance objective is to provide returns comparable to the total return of the MSCI EAFE index over a four-year period. The Pool is internally managed and provides exposure to foreign markets in Europe, Australasia and the Far East through the use of structured investments such as foreign equity index swaps. The pooled fund also invests in the Floating Rate Note Pool to generate the floating rate cash flows needed for its equity swap obligations.

Note 3 — Investments (Schedules A to E) (continued)

(s) The Private Real Estate Pool is managed with the objective of providing investment returns higher than the Investment Property Databank (IPD) Large Institutional All Property Index over the long term. Real estate is held through intermediary companies which have issued to the Pool common shares and participating debentures secured by a charge on real estate. Risk is reduced by investing in properties that provide diversification by geographic location, by property type and by tenancy. The pool is intended to provide diversification from the securities market.

(t) The Private Equity Pools are managed with the objective of providing investment returns comparable to the S&P/TSX Composite Index plus 2.5 per cent over the long term. The pools invest in institutionally sponsored Canadian private equity pools managed by experienced advisors with proven records. Risk is reduced by avoiding direct investments in private companies and by limiting holdings in any single pool.

(u) The Private Income Pools are managed with the objective of providing an investment return comparable to the Consumer Price Index plus 6 per cent over the long term. The pools invest in infrastructure related projects that are structured to provide high current income.

(v) The Absolute Return Strategy Pool is managed with the objective of providing investment returns higher than the HFRX Global Investable Index. The Pool uses external managers who employ various investment strategies. These strategies are expected to produce absolute positive investment returns with lower volatility.

Note 4 — Investment Risk Management

Fair values of investments are exposed to credit risk and price risk. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Price risk is comprised of currency risk, interest rate risk and market risk. Currency risk relates to the possibility that the investments will change in value due to future fluctuations in foreign exchange rates. Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates. Market risk relates to the possibility that the investments will change in value due to future fluctuations in market prices.

Actuarial liabilities of the Plan are primarily affected by the long-term real rate of return expected to be earned on investments. The expected rate of return on investments, together with the expected long-term inflation rate, form the basis for determining the economic assumptions used in calculating the actuarial liabilities.

In order to earn the best possible return at an acceptable level of risk, the Board has established the following long-term policy asset mix benchmark:

Short-term	0.5%
Fixed income	32.5%
Canadian equity	22.0%
U.S. equity	14.0%
Non-North American equity	16.0%
Real estate	7.0%
Alternative investments	8.0%

Risk is reduced through asset class diversification, diversification within each asset class, quality constraints on fixed income instruments, and restrictions on amounts exposed to countries designated as emerging markets. Controls are in place respecting the use of derivatives. Forward foreign exchange contracts may be used to manage currency exposure in connection with securities purchased in a foreign currency (see Note 5).

Note 5 — Derivative Contracts

Derivative contracts are financial contracts, the value of which is derived from the value of underlying assets, indices, interest rates or currency rates. The Plan uses derivative contracts held indirectly through pooled investment funds to enhance return, manage exposure to credit, interest and foreign currency risks, and for asset mix management purposes. The notional value of a derivative contract represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows.

A swap is a contractual agreement between two counter-parties to exchange a series of cash flows based on a notional amount. An equity or bond index swap involves the exchange of a floating interest rate cash flow for one based on the performance of a market index. For interest rate swaps, parties generally exchange fixed and floating rate interest cash flows based on a notional amount. A credit default swap allows counter-parties to buy and sell protection on credit risk inherent in a bond. A premium is paid, based on a notional amount, from one counter party to a second counter party in exchange for a contingent payment should a defined credit event occur with respect to the underlying security. Cross-currency interest rate swaps are contractual obligations in which the principal amounts of Canadian fixed-income securities denominated in foreign currency are exchanged for Canadian currency amounts both initially and at maturity. Over the term of the cross-currency swap, counter-parties exchange fixed to fixed and fixed to floating interest rate cash flows in the swapped currencies. Generally there are underlying securities supporting all swaps and leveraging is not allowed.

Forward foreign exchange contracts are agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.

Equity index futures contracts are agreements to receive or pay cash on an agreed settlement date based on changes in the level of a specified stock index in the future.

Swap option contracts include the right, but not the obligation, to enter into an interest rate swap at a preset rate within a specified period of time.

The following is a summary of the Plan's proportionate share of the notional amount and fair value of derivative contracts held by pooled funds at December 31, 2007:

	2007					2006	
	Maturity						
	Under 1 Year	1 to 3 Years	Over 3 Years	Notional Amount	Net Fair Value (a)	Notional Amount	Net Fair Value (a)
		%			($ thousands)		
Credit default swap contracts	2	20	78	$ 691,323	$ (1,972)	$ 322,494	$ 339
Equity index swap contracts	95	5	-	564,026	(5,891)	483,740	16,104
Swap option contracts	52	-	48	381,228	72	564,505	(412)
Interest rate swap contracts	5	13	82	369,156	(1,505)	479,319	(265)
Forward foreign exchange contracts	100	-	-	189,813	(349)	189,322	(676)
Equity index futures contracts	100	-	-	162,427	3,998	166,706	4,912
Cross-currency interest rate swap contracts	21	45	34	158,231	11,092	140,716	4,734
Bond index swap contracts	100	-	-	81,906	2,555	172,144	651
				$ 2,598,110	$ 8,000	$ 2,518,946	$ 25,387

a) The method of determining fair value of derivative contracts is described in Note 2(e).

Note 5 — Derivative Contracts (continued)

The notional amounts, upon which payments are based, are not indicative of the credit risk associated with derivative contracts. Current credit exposure is represented by the current replacement cost of all outstanding contracts in a favourable position (positive fair value). Credit exposure is limited by dealing with counter-parties with good credit standing.

Note 6 — Net Investment Income

(a) Investment Income

Net investment income of the Plan is comprised of the following:

	2007	2006
	($ thousands)	
Investment income		
Net realized and unrealized gains on investments, including those arising from derivative transactions	$ (29,124)	$ 194,333
Interest income	66,123	57,727
Dividend income	20,150	19,564
Real estate operating income	7,140	6,910
Securities lending income	770	616
	65,059	279,150
Investment expenses	(5,081)	(3,958)
Net investment income	**$ 59,978**	**$ 275,192**

The following is a summary of the Plan's proportionate share of net investment income by type of investments:

	2007	2006
	($ thousands)	
Fixed Income Securities	$ 16,025	$ 33,020
Canadian Equities	49,137	85,516
Foreign Equities		
United States	(36,137)	41,278
Non-North American	(11,021)	82,131
Real Estate Equities	31,371	27,634
Alternative Investments	10,603	5,613
Net investment income	**$ 59,978**	**$ 275,192**

Note 6 — Net Investment Income (continued)

(a) Investment Income (continued)

The following is a summary of the investment performance results attained by the Plan:

	One-Year Return	Four-Year Compound Annualized Return	Eight-Year Compound Annualized Return
Time-weighted rates of return*			
Overall Plan	2.7%	9.9%	6.2%
Policy Benchmark**	2.6%	9.3%	5.7%

* The measure involves the calculation of the net return realized by the Plan over a specified period and is a measure of the total proceeds received from an investment dollar initially invested. Total proceeds include cash distributions (interest and dividend payments) and capital gains and losses (realized and unrealized).

** The policy benchmark return is a product of the weighted average policy sector weights and sector returns.

(b) Investment Expenses

On January 1, 2008, the investment operations of the Department of Finance were transferred to Alberta Investment Management Corporation (AIMCo). AIMCo is a crown corporation and part of the Ministry of Finance. It provides the day to day investment services for the Fund's investment portfolio. AIMCo invests the assets for the long-term benefit of the Plan's membership and in accordance with the investment policies approved by the Board. AIMCo manages the majority of the Plan's investments internally through pooled investment funds. However, in order to achieve greater diversification, access external expertise and specialized knowledge and to reduce operational complexity, some investments are managed by third party investment managers selected and monitored by AIMCo.

Investment expenses are recognized on an accrual basis and include those costs and fees incurred to earn investment income of the Plan. The Plan recognizes portfolio management and administration expenses incurred directly by the Plan and its share of expenses through pool investment funds. Investment services provided by AIMCo are charged directly to the Plan and to pooled funds on a cost recovery basis. Investment services provided by external managers are charged to pooled funds based on a percentage of net assets under management at fair value or committed amounts.

Fees charged by external managers include primarily regular management fees and performance/incentive based fees to the extent recognized.

Investment services provided by AIMCo and external managers include daily trading of securities, portfolio research and analysis, custody of securities, valuation of securities, performance measurement, maintenance of investment systems and internal audit. The Department of Finance provides investment accounting and reporting for the Plan and treasury management services.

Investment expenses as a percentage of net assets are provided below:

	2007	2006
	($ thousands)	
Investment operations of Alberta Finance (1)	$ 1,177	$ 910
External manager fees	3,904	3,048
Total investment expenses	**$ 5,081**	**$ 3,958**
Investment expenses as a percentage of net assets	0.22%	0.18%

(1) On January 1, 2008, the investment operations of the Department of Finance were transferred to AIMCo

Note 7 — Additional Government Contribution

In March 2007, the *Appropriation (Supplementary Supply) Act 2007* was passed authorizing the Province to make a lump sum payment of $40,000 to the Plan toward the Government's share of the Plan's unfunded actuarial deficiency.

Note 8 — Member Service Expenses

Member service expenses, including Board costs in the amount of $40 (2006 $49) were charged to the Plan on a cost-recovery basis.

The Plan's share of the Alberta Pensions Administration Corporation's operating and plan specific costs was based on cost allocation policies approved by the Minister of Finance.

Total Plan expenses including investment and member service expenses amounted to $778 per member (2006: $675 per member). Total Plan expenses including investment and member service expenses amounted to 0.27 per cent (2006: 0.23 per cent) of assets under administration.

Note 9 — Accrued Benefits

(a) Actuarial Valuation

An actuarial valuation of the Plan was carried out as at December 31, 2006 by Aon Consulting Inc. and was then extrapolated to December 31, 2007. Differences between 2006 results and the 2006 actuarial valuation are accounted for as experience gains and losses in the current year.

Actuarial valuations were determined using the projected accrued benefit method prorated on service. The assumptions used in the valuations and extrapolations were developed as the best estimates of expected short-term and long-term market conditions and other future events. After consultation with the Plan's actuary and the Board, Alberta Finance adopted these best estimates.

The major assumptions used were:

	2006 Valuation and 2007 Extrapolation	**2004 Valuation and 2006 Extrapolation**
	%	
Asset real rate of return		
For 2008-2009	3.25	4.00
Thereafter	4.00	4.00
Inflation rate		
For 2008-2009	3.50	2.75
Thereafter	2.75	2.75
Investment rate of return	6.75	6.75
Salary escalation rate*		
For 2008-2009	4.00	3.25
Thereafter	3.25	3.25
Mortality rate	Uninsured Pensioner 1994 Table Projected to 2020 using Scale AA	

* In addition to merit and promotion.

Note 9 — Accrued Benefits (continued)

(b) Sensitivity of Changes in Major Assumptions

The Plan's future experience will inevitably differ, perhaps significantly, from the assumptions used in the actuarial valuation and extrapolation. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations and will affect the financial position of the Plan.

The following is a summary of the sensitivities of the Plan's deficiency and current service cost to changes in assumptions used in the actuarial extrapolation at December 31, 2007:

	Sensitivities		
	Changes in Assumptions %	**Increase in Plan Deficiency ($ millions)**	**Increase in Current Service Cost as a % Pensionable Earnings***
Inflation rate increase holding nominal investment return and salary escalation assumptions constant	1.0%	$ 169.7	1.4%
Salary escalation rate increase holding inflation rate and nominal investment return assumptions constant	1.0%	30.8	0.9%
Investment rate of return decrease holding inflation rate and salary escalation assumptions constant	(1.0%)	330.4	4.0%

* The current service cost of accruing benefits (excluding 0.4% allowance for administration expenses) as a percentage of pensionable earnings as determined by the December 31, 2006 valuation was 20.8%.

Note 10 — Funding of Actuarial Deficiency

The Plan's deficiency is determined on the fair value basis for accounting purposes. However, for funding valuation and extrapolation purposes, asset values are adjusted for fluctuations in fair values to moderate the effect of market volatility on the Plan's funded status. Actuarial asset values for funding valuation and extrapolation purposes amounted to $2,297 million at December 31, 2007 (2006 $2,028 million).

In accordance with the *Public Sector Pension Plans Act*, the actuarial deficiencies as determined by actuarial funding valuations are expected to be funded by special payments currently totalling 7.3 per cent of pensionable earnings shared between employees and employers until December 31, 2017. The special payments have been included in the rates in effect at December 31, 2007 (see Note 1(b)).

Note 11 — Comparative Figures

Comparative figures have been restated to be consistent with 2007 presentation.

Note 12 — Responsibility for Financial Statements

These financial statements were approved by the Deputy Minister of Finance based on information provided by Alberta Pensions Administration Corporation and the Plan's actuary, and after consultation with the Management Employees Pension Board.

Schedule A

MANAGEMENT EMPLOYEES PENSION PLAN

Schedule of Investments in Fixed Income Securities

December 31, 2007

	Plan's Share	
	2007	2006
	($ thousands)	
Deposits and short-term securities	$ 19,575	$ 24,625
Fixed income securities (a)		
Public		
Government of Canada, direct and guaranteed	222,366	222,320
Provincial		
Alberta, direct and guaranteed	199	232
Other, direct and guaranteed	95,038	97,833
Municipal	306	288
Corporate, public and private	517,879	448,734
	835,788	769,407
Receivable from sale of investments and accrued investment income	12,047	7,479
Liabilities for investment purchases	(655)	(746)
	11,392	6,733
	$ 866,755	$ 800,765

(a) Fixed income securities held as at December 31, 2007 had an average effective market yield of 5.24 per cent per annum (2006 5.17 per cent per annum). The following term structure of these securities as at December 31, 2007 was based on the principal amount:

	2007	2006
	%	
Under 1 year	5	2
1 to 5 years	27	29
6 to 10 years	35	34
11 to 20 years	13	13
Over 20 years	20	22
	100	**100**

Schedule B

MANAGEMENT EMPLOYEES PENSION PLAN

Schedule of Effective Net Investments in Canadian Equities

December 31, 2007

	Plan's Share	
	2007	2006
	($ thousands)	
Deposits and short-term securities	$ 2,642	$ 2,341
Public equities (a) (b)		
Consumer discretionary	29,065	27,163
Consumer staples	11,602	14,927
Energy	142,650	126,687
Financials	159,018	153,545
Health care	1,647	3,725
Industrials	29,936	25,385
Information technology	27,304	22,022
Materials	83,623	73,240
Telecommunication services	33,178	26,969
Utilities	5,067	4,775
	523,090	478,438
Passive index	22,244	-
	545,334	478,438
Private Equity Pool	1,194	4,593
Receivable from sale of investments and accrued investment income	4,310	9,804
Liabilities for investment purchases	(1,993)	(423)
	2,317	9,381
	$ 551,487	**$ 494,753**

(a) Direct investments and derivative contracts are classified based on the risk exposure to the above asset mix categories. The Plan's effective net investment in Canadian public equities includes the notional amount of Canadian equity index swap and futures contracts totalling $198,852 (2006: $207,140).

(b) The sector classification conforms to the Global Industry Classification Standard followed by the Toronto Stock Exchange S&P/TSX Composite Index and S&P 500 Index.

Schedule C

MANAGEMENT EMPLOYEES PENSION PLAN

Schedule of Effective Net Investments in United States Equities

December 31, 2007

	Plan's Share	
	2007	2006
	($ thousands)	
Deposits and short-term securities	$ 4,421	$ 1,005
Public equities (a) (b)		
Consumer discretionary	30,193	38,417
Consumer staples	30,330	30,415
Energy	38,643	32,980
Financials	56,390	80,103
Health care	38,615	42,154
Industrials	38,047	40,710
Information technology	52,589	53,002
Materials	12,248	11,407
Telecommunication services	10,532	11,108
Utilities	12,538	12,899
	320,125	353,195
Passive index	652	133
	320,777	353,328
Receivable from sale of investments and accrued investment income	1,312	845
Liabilities for investment purchases	(7,624)	(743)
	(6,312)	102
	$ 318,886	**$ 354,435**

(a) Direct investments and derivative contracts are classified based on the risk exposure to the above asset mix categories. The Plan's effective net investment in United States public equities includes the notional amount of U.S. equity index swap and futures contracts totalling $222,163 (2006: $252,181).

(b) The sector classification conforms to the Global Industry Classification Standard followed by the Standard & Poor's S&P 500 Index.

Schedule D

MANAGEMENT EMPLOYEES PENSION PLAN

Schedule of Effective Net Investments in Non-North American Equities

December 31, 2007

	Plan's Share	
	2007	2006
	($ thousands)	
Deposits and short-term securities	$ 6,580	$ 9,535
Public equities (a) (b)		
Consumer discretionary	40,731	45,698
Consumer staples	25,304	22,826
Energy	30,966	25,472
Financials	76,506	103,737
Health care	24,588	24,929
Industrials	52,486	47,742
Information technology	23,611	23,241
Materials	30,523	26,065
Telecommunications services	29,082	22,323
Utilities	17,269	16,911
	351,066	358,944
Passive index	8,749	10,198
Receivable from sale of investments and accrued investment income	1,778	5,430
Liabilities for investment purchases	(4,631)	(9,680)
	(2,853)	(4,250)
	$ 363,542	**$ 374,427**

(a) Direct investments and derivative contracts are classified based on the risk exposure to the above asset mix categories. The Plan's effective net investment in Non-North American public equities includes the notional amount of EAFE equity index swap and futures contracts totalling $77,740 (2006: $61,282).

(b) The sector classification conforms to the Global Industry Classification Standard followed by Standard & Poor's. The following is a summary of the Plan's investment in Non-North American public equities by country.

	Plan's Share	
	2007	2006
	($ thousands)	
United Kingdom	$ 69,442	$ 77,735
Japan	63,926	70,610
France	37,927	38,976
Germany	35,078	26,808
Switzerland	24,251	20,812
Netherlands	15,406	20,083
Australia	15,391	11,751
Spain	14,094	14,532
Italy	12,039	12,610
Hong Kong	7,306	6,262
Other	56,206	58,765
	$ 351,066	$ 358,944

Schedule E

MANAGEMENT EMPLOYEES PENSION PLAN

Schedule of Investments in Real Estate

December 31, 2007

	Plan's Share	
	2007	2006
	($ thousands)	
Deposits and short-term securities	$ 192	$ 81
Real estate (a)		
Office	77,509	78,222
Retail	54,533	46,216
Industrial	25,019	20,035
Residential	9,581	7,621
	166,642	152,094
Passive index	6,266	5,455
Receivable from sale of investments and accrued investment income	82	100
	$ 173,182	**$ 157,730**

(a) The following is a summary of the Plan's investment in real estate by geographic locations.

	Plan's Share	
	2007	2006
	($ thousands)	
Ontario	$ 89,932	$ 87,222
Alberta	58,948	47,539
Quebec	14,281	14,367
British Columbia	3,481	2,966
	$ 166,642	$ 152,094

TEN-YEAR PLAN SUMMARY
(UN-AUDITED)

MEPP Ten-year Plan Summary
as at December 31, 2007

($ thousands)

	2007^	2006	2005	2004	2003	2002	2001	2000	1999	1998
Change in net assets										
Income										
Investment income (loss)	$ 65,059	$ 279,150	$ 227,795	$ 163,484	$ 190,938	$ (76,107)	$ (64,883)	$ 118,341	$ 207,667	$ 105,296
Contributions	114,463	104,003	86,003	66,663	56,297	46,230	42,361	38,983	36,336	39,508
Total Income	**179,522**	**383,153**	**313,798**	**230,147**	**247,235**	**(29,877)**	**(22,522)**	**157,324**	**244,003**	**144,804**
Expenditures										
Benefits paid	93,819	84,937	76,873	68,145	61,296	54,714	48,476	43,160	38,232	33,483
Refunds to members	5,987	4,653	1,900	2,117	1,143	1,603	1,247	1,415	1,554	2,651
Transfers to (from) other plans	(985)	(322)	(953)	186	170	293	683	(243)	66,278	(34)
Additional Government contribution	(40,000)	-	-	-	-	-	-	-	-	-
Investment expenses ^^	5,081	3,958	3,368	3,208	1,930	1,868	1,748	1,496	1,457	219
Member Service expenses	1,212	1,207	1,416	1,427	1,363	1,105	686	487	581	440
Total expenditures	**65,114**	**94,433**	**82,604**	**75,083**	**65,902**	**59,583**	**52,840**	**46,315**	**108,102**	**36,759**
Increase (decrease) in net assets	**114,408**	**288,720**	**231,194**	**155,064**	**181,333**	**(89,460)**	**(75,362)**	**111,009**	**135,686**	**108,045**
Net Assets										
Investments										
Short-term	10,780	11,844	11,941	29,865	17,784	9,889	27,737	33,016	3,335	4,043
Fixed income securities	855,975	788,921	741,675	640,618	567,255	529,924	544,517	619,941	569,897	597,605
Equities										
Canadian	551,487	494,753	473,466	449,245	423,513	354,208	457,113	469,248	494,928	365,032
United States	318,886	354,435	282,183	249,229	230,224	212,193	445,930	428,950	378,355	309,543
Non-North American	363,542	374,427	313,927	269,192	255,251	210,579	-	-	-	29,629
Real Estate	173,182	157,730	126,796	83,191	72,912	69,780	-	-	-	-
Alternative Investments	78,054	55,875								
Total Investments	**2,351,906**	**2,237,985**	**1,949,988**	**1,721,340**	**1,566,939**	**1,386,573**	**1,475,297**	**1,551,155**	**1,446,515**	**1,305,852**
Contribution and other receivables	9,694	8,988	8,282	5,779	5,215	4,716	4,769	4,318	3,234	3,325
Liabilities	(300)	(81)	(98)	(141)	(240)	(708)	(25)	(70)	(5,355)	(469)
Net Assets available for benefits	**$2,361,300**	**$2,246,892**	**$1,958,172**	**$1,726,978**	**$1,571,914**	**$1,390,581**	**$1,480,041**	**$1,555,403**	**$1,444,394**	**$1,308,708**
Actuarial value of accrued benefits	2,445,641	2,253,657	2,124,067	1,995,079	1,861,928	(1,692,549)	(1,474,703)	(1,384,545)	(1,311,675)	(1,250,853)
Surplus (Deficiency)	**(84,341)**	**(6,765)**	**(165,895)**	**(268,101)**	**(290,014)**	**(301,968)**	**5,338**	**170,858**	**132,719**	**57,855**
Funded Ratio (%)	97	100	92	87	84	82	100	112	110	105
Performance (%)										
Long-term goal	6.75	6.75	6.75	6.75	6.75	7.0	7.25	7.25	7.25	7.5
Rate of return-nominal	2.7	14.0	13.1	10.2	13.7	(5.3)	(4.4)	8.1	16.0	8.8
Benchmark	2.6	13.2	11.9	10.0	12.8	(5.6)	(4.1)	7.0	13.4	11.2
Consumer Price Index (Canada)	2.4	1.6	2.2	2.1	2.0	3.9	0.7	3.2	2.5	1.0
Real rate of return	0.3	12.4	10.9	8.1	11.7	(9.2)	(5.1)	4.9	13.5	7.8
Interest Rates (%)										
Bank of Canada	4.25	4.25	3.25	2.75	2.75	3.00	2.50	6.00	5.00	5.30
US Federal Reserve	4.25	5.25	4.25	2.25	1.00	0.75	1.25	6.50	5.50	4.50
Market Indices (%)										
S&P/TSX ($Cdn)	9.8	17.3	24.1	14.5	26.8	(12.4)	(12.6)	7.4	31.7	(1.6)
S&P 1500 ($Cdn)^^^	(10.6)	15.3	1.6	3.3	5.3	(22.9)	(6.4)	(5.8)	14.2	38.0
MSCI EAFE ($Cdn)	(5.7)	26.0	10.0	12.0	13.3	(16.8)	(16.5)	(11.2)	20.0	28.8
DEX Universe Bond Index	3.7	4.1	6.5	7.1	6.7	8.7	8.1	10.3	(1.1)	9.2
Participants ^^^^										
Active members	4,868	4,654	4,447	4,206	4,029	3,665	3,405	3,373	3,003	3,013
Inactive members	733	789	756	731	770	873	929	861	1,032	867
Retirees	2,684	2,446	2,211	2,016	1,837	1,669	1,480	1,329	1,183	1,048
Total	**8,285**	**7,889**	**7,414**	**6,953**	**6,636**	**6,207**	**5,814**	**5,563**	**5,218**	**4,928**
Average age of Active members ^^^^^ (years)	48.9	48.9	48.90	48.90	48.90	48.90	49.00	47.80	48.10	48.20
Average age of Pensioners (years)	64.7	64.7	64.70	64.10	62.10	62.10	61.10	61.10	61.10	60.60
Average annual pension amount	$ 36,000	$ 35,508	$ 34,977	$ 35,061	$ 34,572	$ 34,476	$ 34,476	$ 33,564	$ 33,564	$ 33,733
Contribution Rates (%)										
Employees	10.50	10.50	10.50	9.50	9.50	7.75	7.75	7.75	7.00	7.00
Employers	18.00	18.00	18.00	13.10	13.10	10.75	10.75	10.75	8.00	8.00
Unfunded liability			-	-	-	-	-	-	3.50	3.50
Annual COLA pension adjustment	2.16	1.20	0.78	3.42	1.02	1.98	1.98	1.32	0.66	1.32

^ Comparative figures have been restated to be consistent with 2007 presentation.
^^ External management investment costs are not available for restatement for 1998.
^^^ S&P 500 for 2005 and prior years
^^^^ Participant counts may differ from the actuarial valuation results due to timing differenc and treatment of inactive member accounts.
^^^^^ Updated in years when actuarial valuations are performed.

2008 DIRECTORY

Board Members

Employee Nominees
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Scott Kashuba
David Lawson

Government Nominees
Nancy Bochard
Roderick McDermand, Chair
Don Smallwood

Public Service Commissioner Nominee (non-voting)
Jan Loree Symon

Investment Committee
Nancy Bochard
Joe Doolan*
Jim Hinks*
David Lawson, Chair
(*external member)

Advisors and Suppliers
Administrator: Alberta Pensions Administration Corporation (APA)
Fund Management: Alberta Investment Management Corporation (AIMCo)
Auditor: Auditor General of Alberta
Actuary: Aon Consulting Inc.
Investment Consultant: API Asset Performance Inc.

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